



The State of the Ohio Nonprofit Sector

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Table of Contents

The State of the Ohio Nonprofit Sector	3
Executive Summary	4
Findings	
I. Private giving is more than offsetting federal and state cuts at most Ohio nonprofits	6
II. With ongoing federal and state cuts, Ohio nonprofits were successful in eliminating their deficits, largely through salary cuts and freezes and draining reserves	8
III. Alarming, only a handful of Ohio nonprofits are using loans or angel funding to expand earned income, while the rest are still dependent on grants or self-funding to finance expansion	12
Link Your Mission To Money	14
Books	15
Stay Current on Nonprofit Issues	16
Appendix	17

The State of the Ohio Nonprofit Sector

This survey was conducted as part of Linking Mission to Money®'s overall initiative to help those in the nonprofit sector. By surveying Ohio's nonprofit leaders on the current challenges and trends impacting their funding and organizational plans, I hoped to determine their outlook on the future.

Survey results were concluded from the online responses of a random sample including 126 Ohio nonprofits. Results are presented as a collective voice, used to establish the future outlook of Ohio's nonprofits as a whole. Questions were asked surrounding both 2011 and 2012 so that proper comparisons could be made.

Included in the report is information touching on the impacts of federal and state cuts and how nonprofits are making do with the changes. My expert recommendations are included at the end of each key finding, in hopes to provide insight to those who are dealing with similar challenges in the coming year.

Yours in Linking Mission to Money®,
Allen Proctor

Executive Summary

- **Private giving is more than offsetting federal and state cuts at most Ohio nonprofits**
- **With ongoing federal and state cuts, Ohio nonprofits are eliminating their deficits, largely through salary cuts and freezes and draining reserves**
- **Alarming, only a handful of Ohio nonprofits are using loans or angel funding to expand earned income, while the rest are still dependent on grants or self-funding to finance growth or expansion to new services**

Nonprofits in Ohio are taking an active role in improving their finances in 2012. While in all areas of third-party support there are respondents facing losses compared with 2011, the vast majority see stability or improvement in 2012. Improvement over 2011 is most common in individual, corporate and foundation giving. Not surprising, deterioration from 2011 levels is most common in funding from state and federal agencies. The number of nonprofits facing losses also exceeds the number finding increased support from federated campaigns such as United Way.

With this pervasive shifting in third-party support, Ohio's nonprofits are actively reducing expenses and expanding into new service areas or new businesses in order to stabilize their finances. Reduction or freezing of staff salaries and benefits, increasing fees and drawing on reserves were the most common actions taken. Overall these steps have been successful. Over 80 percent of respondents expect to finish 2012 in balance or surplus compared with 60 percent in 2011. Human service agencies have the most concentrated revenue sources, particularly in contracted services. Not surprisingly, given the reductions in state and federal support, they were more likely than other respondents to take actions to reduce expenses.

Exerting more control over their future, half of the respondents are engaging in social entrepreneurship to expand services to new areas or new customers or to create new services. They are also monitoring the profit and loss of some or all of their activities and using business plans to evaluate where to expand.

The funding for this expansion is most commonly their own funds: 51 of the 60 respondents who plan to expand services in 2012 will use current operating revenues and about 24 will use unrestricted reserves to finance the expansion. Grant funding is being tapped by 27 respondents.

Relying on operating revenues to expand is challenging since operating revenues remain scarce. Fewer than 10 percent of respondents had surpluses greater than one-tenth of their budgets in 2011. This means that freeing up money for expansion can be slow or at a modest scale. Similarly, seeking grants to fund expansion can involve substantial effort and many months before a nonprofit can know if their expansion can go ahead.

Executive Summary Recommendations

Nonprofits have largely been successful in navigating through a rapidly changing environment. They are tapping more individual donors to counter the effects of government funding declines and the retargeting by corporate foundations of which nonprofits they will support.

The nonprofits with the highest concentration of revenue sources have relied the most heavily on expense reductions to bring their 2012 budgets into balance. Expanding earned revenues through social entrepreneurship is a focus of the majority of respondents in 2012. The challenge to the success of this trend is how to finance it.

Nonprofits that have the ideas and ambition to start up new ventures to earn reliable revenues to support their mission activities need to have timely access to adequate sources of capital. Starting too slowly or at too small a scale can compromise an otherwise viable business plan.

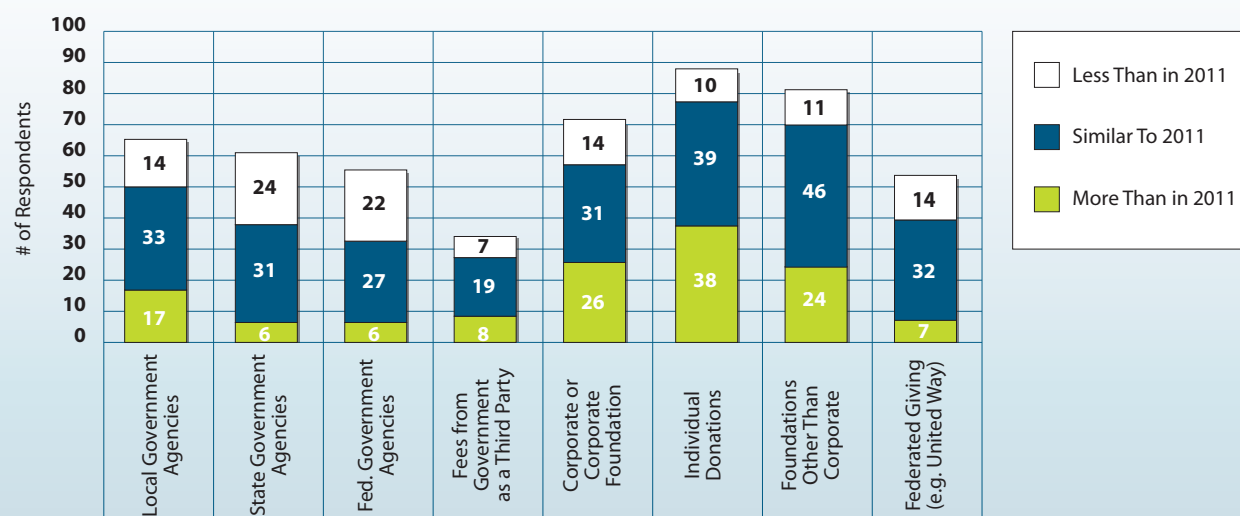
In the technology area there is already a broad recognition that innovation requires seed capital, incubator programs and angel funds in order for good ideas to become viable businesses. Social entrepreneurship has the same needs.

If social entrepreneurship is to reach its potential as a source of sustainability for the missions of nonprofits, the effective incubation and angel financing models that are common in technology entrepreneurship need to be migrated into nonprofit social entrepreneurship activities.

I. Private giving is more than offsetting federal and state cuts at most Ohio nonprofits

- The areas in which most respondents expect changes in revenue suggests that individuals, corporations and foundations are stepping up in the face of declining federal and state governmental support
- In Ohio more respondents expect increases in individual giving than in any other category of revenue
- Across all categories, nonprofits facing steady or increasing support outnumber those facing declining support in 2012
- The most common areas in which respondents face decreases in 2012 are state and federal government agencies, followed by federated agency giving

Individual Giving Expands to Offset Government Reductions



Gifts from individuals are the most common source of third-party support and it is also the area in which the largest number of respondents expects 2012 receipts to exceed 2011. Foundation support is the next most common and, while many expect more support in 2012, over half expect support to remain unchanged from 2011. **Ohio nonprofits are much more optimistic about 2012 giving than reported by the 2012 "Giving USA" annual report by The Center on Philanthropy at Indiana University, which surveys the intentions of donors.** That national report found that donors' charitable giving barely grew last year and no improvement is expected in 2012.

I. Private giving more... (cont'd)

Corporations seem to be changing the mix of nonprofits they are supporting. For respondents which reported increased giving in a category, the second largest number reported increases in corporate or corporate foundation giving. At the same time, for respondents which reported decreased giving in a category, the third largest number reported decreased giving by corporations.

Local, state and federal funding are the next most common sources of outside support. Local support is generally expected to be steady and the number of respondents expecting increases about balances the number expecting decreases. State and federal support, however, is expected to decline in 2012 for two-fifths of the respondents.

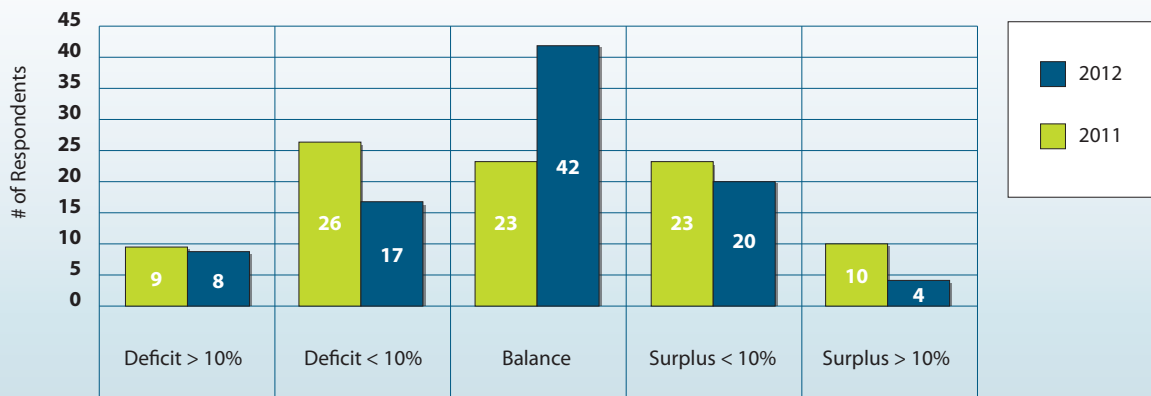
Recommendations

The expansion of individual donor support is a reflection of the responsiveness of nonprofits to changing circumstances. Federal and state grant support is on a declining trend, whether through reductions in the number of grants or reductions in reimbursements to well below the true cost of providing services. Corporate philanthropic support has been shifting from cash to in-kind and volunteer support in the last few years. This suggests the future potential for philanthropy lies primarily among individuals, and it is encouraging that the respondents demonstrate a proactive effort to develop that potential.

II. With ongoing federal and state cuts, Ohio nonprofits were successful in eliminating their deficits, largely through salary cuts and freezes and draining reserves

- 73 percent of respondents expect to end 2012 in balance or in surplus compared to 62 percent who were able to do so in 2011
- A significant number of respondents are primarily dependent on one source of revenue
- With limited diversity of revenue sources, respondents took a wide range of actions to reduce expenses without affecting the volume or availability of services
- Human services nonprofits are more dependent on government contracts than other respondents
- Human services nonprofits' greater dependence on falling government contracts made them more likely to take actions to improve their finances

More Expect Balance or Surplus in 2012

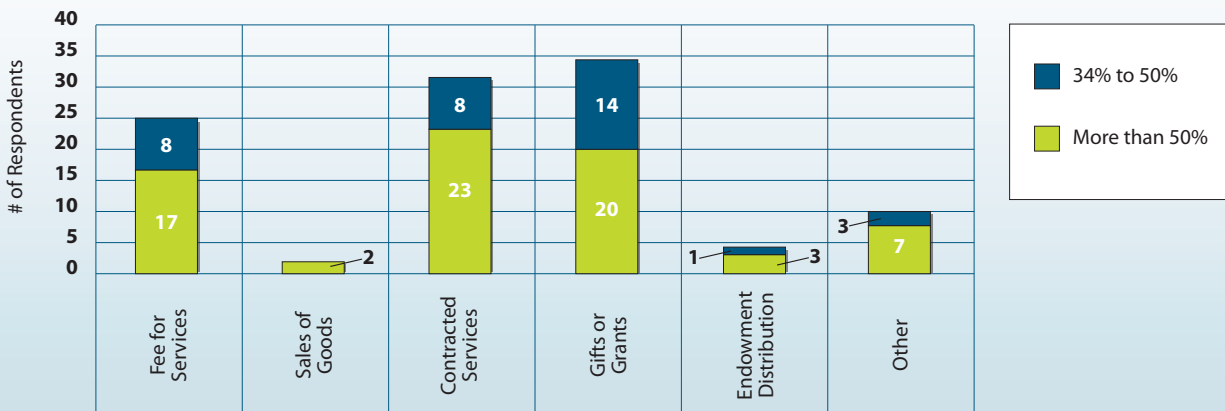


The number of respondents facing deficits has reduced in 2012. At the same time, perhaps due to uncertainty about government funding, far fewer are willing to predict that the surpluses they achieved in 2011 will be repeated in 2012. This pattern was the same whether the respondents were in northeast, central, or southwest Ohio. A recent national survey by the Nonprofit Finance Fund also reported that its 116 Ohio respondents also expect improved budget results over 2011. It found that a larger share of Ohio nonprofits were anticipating surpluses in 2012 than were nonprofits nationally.

II. Ohio Nonprofits Eliminating Deficits... (cont'd)

- A significant number of respondents are primarily dependent on one source of revenue

A Significant Number Are Highly Dependent on a Few Revenue Sources

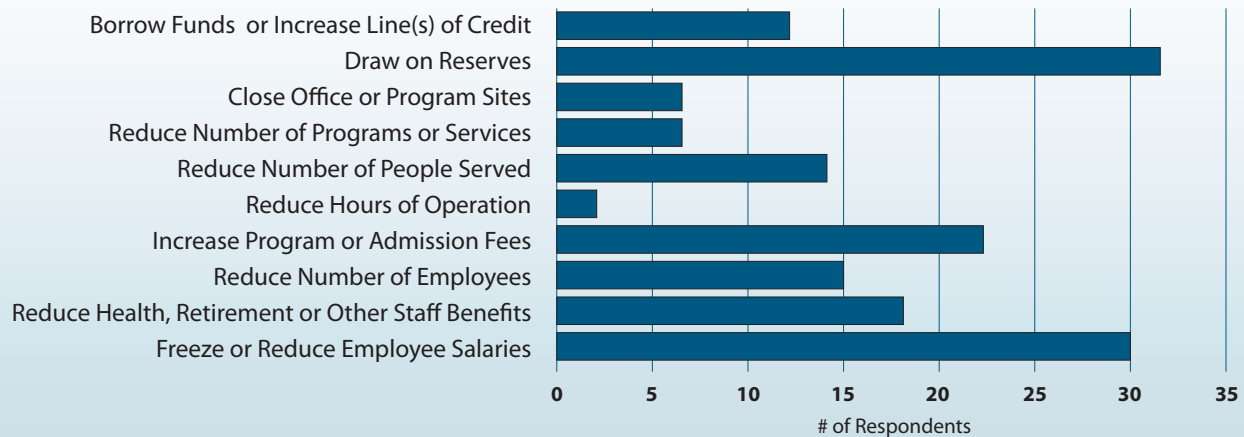


Funding sources are concentrated. One funding source accounts for over half of revenues for most respondents. The sizable changes in government and corporate support, accompanied by the concentration in contracted service and gift/grant revenues compelled many nonprofits to overcome their 2011 deficits on the expense side. This finding contradicts the results of the recent survey of Ohio nonprofits by the Ohio State University-Ohio Association of Nonprofits Survey. That survey found that only one-fifth of their respondents depended on a single source of revenue for more than 50 percent of their funding.

Virtually all respondents monitor the net profit or loss of some or all of their activities in making their budget decisions. This businesslike approach is ideal for evaluating efficiency of operations and confirming the appropriate mission role of an activity relative to its financial results. This allows a nonprofit to trim expenses in a way that can minimize the impact on high-mission activities while ensuring that lower mission activities remain a positive financial contributor to the organization.

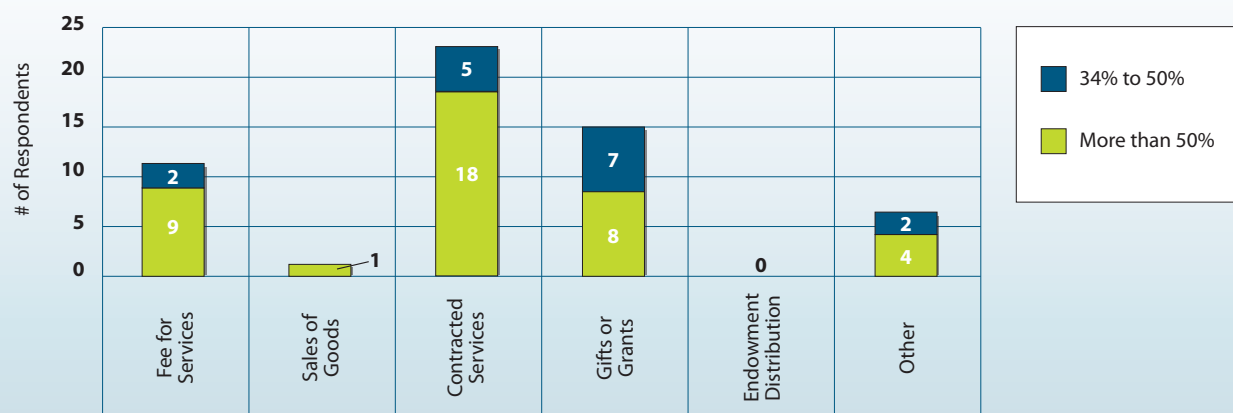
II. Ohio Nonprofits Eliminating Deficits... (cont'd)

Budget Actions Taken in 2012



The most common actions to improve budget results were to freeze or reduce employee salaries and to draw down reserves. This was followed by decisions to increase program or admission fees. Relatively few needed to affect services in order to improve their budget situation: about a half dozen closed offices or program sites or reduced the number of programs.

Dominant Sources of Revenue-Human Services Nonprofits Only



Compared with other nonprofits, human services nonprofits are particularly dependent on government contracts. Of the 50 human services nonprofits who responded to this question, over half rely on contracts for at least one-third of their revenue.

II. Ohio Nonprofits Eliminating Deficits... (cont'd)

This greater dependence on falling government contracts made human services nonprofits more likely than other nonprofits to take actions to improve their finances. Nearly every type of budget action was chosen by proportionately more human services nonprofits. Only price changes and drawing on reserves were used less often, the former likely due to the inflexibility of government reimbursement rates.

Human services nonprofits were most likely to take savings from reserves (40 percent) employee salaries (51 percent), benefits (40 percent) and employment (29 percent) but the impact of government cuts was significant enough to compel them to reduce the number of people served (31 percent), close sites (17 percent) and reduce the number of programs (14 percent).

Human Service Respondents More Likely to Reduce Expenses

Proportion of Respondents Taking A Fiscal Action in 2012

	ALL	HS ONLY	PCT PTS HS-ALL
Freeze or Reduce Employee Salaries	44.1%	51.4%	7.3
Reduce Health, Retirement or Other Staff Benefits	26.5%	40.0%	13.5
Reduce Number of Employees	22.1%	28.6%	6.5
Increase Program or Admission Fees	32.4%	17.1%	(15.3)
Reduce Hours of Operation	1.5%	2.9%	1.4
Reduce Number of People Served	20.6%	31.4%	10.8
Reduce Number of Programs or Services	8.8%	14.3%	5.5
Close Office or Program Sites	8.8%	17.1%	8.3
Draw on Reserves	45.6%	40.0%	(5.6)
Borrow Funds or Increase Line(s) of Credit	17.6%	25.7%	8.1

Recommendations

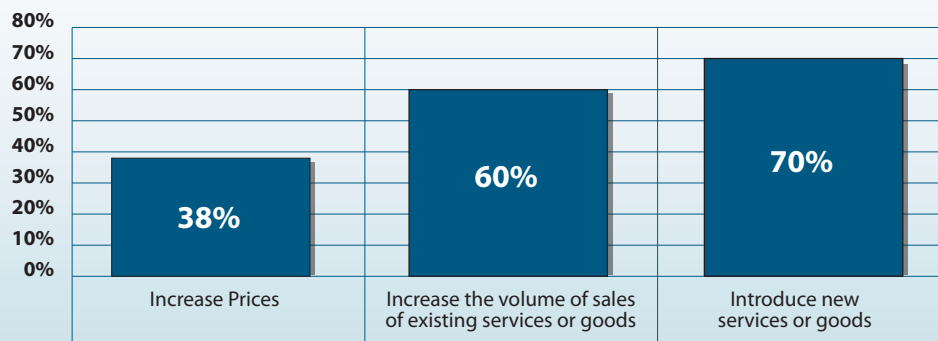
Diversification of revenues is critical to the future health and stability of nonprofits. Respondents whose revenues sources were more concentrated were more prone to require expenditure reductions in order to avoid deficits. Diversification also brings more pricing flexibility as an additional way to improve operating results and as an alternative to expense reductions. Human services nonprofits tend to be more concentrated on contracted services for government, and the trend for those contracts is toward partial reimbursement and chronic financial losses for service providers. Human services nonprofits have the greatest need to recognize the need for starting up profitable services in order to generate revenues that can offset the decline in government payments.

III. Alarming, only a handful of Ohio nonprofits are using loans or angel funding to expand earned income, while the rest are still dependent on grants or self-funding to finance expansion

Boosting earned revenue in 2012 is a budget strategy adopted by two-thirds of the respondents. An even higher proportion of human services nonprofits (80 percent) look to this strategy to improve their finances in 2012. This contrasts with the Ohio State University-Ohio Association of Nonprofits survey which found only one-quarter of respondents engaged in social enterprise. Expanded sales of new or existing products are the most common approach to boosting revenues as opposed to increasing prices. While most of the respondents developed business plans in order to make these expansion decisions, a surprising one-fourth do not use business plans to make these decisions.

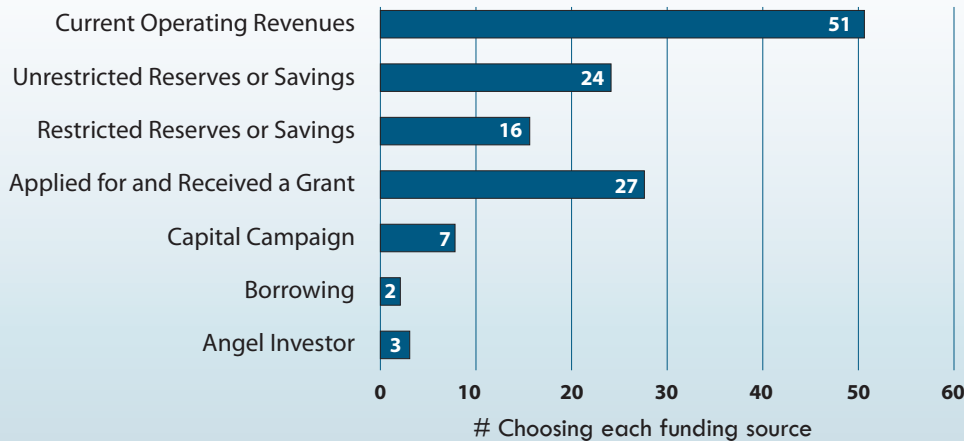
Starting-up New Ventures Is Most Common Revenue Strategy

Frequency of use of each method by respondents seeking to raise earned revenue



The key to successful expansion is often the pace or scale of the expansion. Ramping up too slowly or starting at too small a scale can stunt the potential of a good business idea. The funding sources the respondents are relying on to support this expansion suggests that scale and pace indeed are overly restrained.

Virtually all of the 60 nonprofits who are expanding their services are using operating revenues to finance their expansion plans. Since only a handful had operating surpluses greater than 10 percent in 2011 and even fewer anticipate surpluses in 2012; this is a very limited funding source.

III. Expanding Earned Income... (cont'd)**Grants and Current Revenues Are Primary Source of Growth Capital**

Similarly, about one-third are using accumulated reserves and about half applied for and received grants to finance their expansion. Accumulation of reserves can take years, especially given the financial challenges most nonprofits have faced in this weak economy. The grant application and approval process also can be prolonged and the relative uncertainty of a proposal being accepted discourages planning until approval is received.

Recommendations

Expansion of earned revenues is being financed by methods that compromise the potential financial benefits of the expansion. For-profit companies more often tap loans and investors to finance expansions at the pace and scale that have the greatest profit potential. In this survey only two nonprofits used loans to finance expansion and only three accessed angel investors.

Nonprofits that have the ideas and ambition to start up new ventures to earn reliable revenues to support their mission activities need to have timely access to adequate sources of capital. Starting too slowly or at too small a scale can compromise an otherwise viable business plan.

In the technology area there is already a broad recognition that innovation requires seed capital, incubator programs, and angel funds in order for good ideas to become viable businesses. Social entrepreneurship has the same needs.

Link Your Mission To Money

Board Retreats

- Pre-planning sessions identify the key problems that need resolution and the best approaches and materials to maximize board understanding
- Focus on resolving issues and making decisions during the retreat
- All new and “parking lot” issues identified at the retreat are scheduled agenda items for specific future board meetings

Post-Retreat Action Plan Workshops

- Identify the major problems to be addressed as a result of the retreat
- Develop an initial action plan and get expert detailed feedback
- Finalize an action plan that zeroes in creative initiatives that will make your organization sustainable for years to come

Consulting

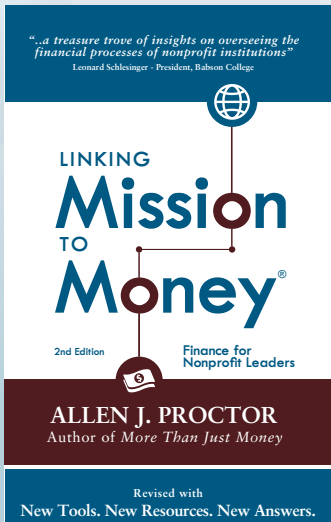
- Develop and implement strategies to achieve sustainability
- Program board meetings to focus on organization-specific key strategic issues
- Create a multi-year financial plan to support sustainability strategies

Personal Coaching

- One-on-one immediate feedback (instant gratification)
- Step away from daily issues to look strategically at your organization
- Receive experienced counsel on how to best communicate your strategy to board members, donors, civic leaders, and staff

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Finance for Nonprofit Leaders

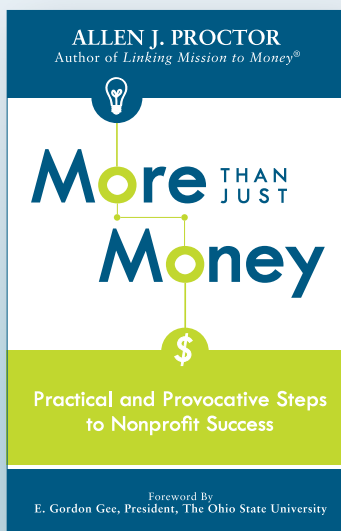


Provides key tools for strategic management and governance of nonprofits:

- 1) Effective nonprofit governance and management
- 2) Setting priorities
- 3) Building budgets based on priorities
- 4) Planning over the business cycle

More Than Just Money

Provocative Steps to Nonprofit Success



Probes more specifically the components of effective nonprofit management:

- 1) Effective use and recruitment of boards of directors
- 2) Working within the business cycle
- 3) Emphasizing cash over endowment and investment income
- 4) Surviving crisis without damaging mission
- 5) Countering the challenges of modern philanthropy through improved donor education

Stay Current on Nonprofit Issues

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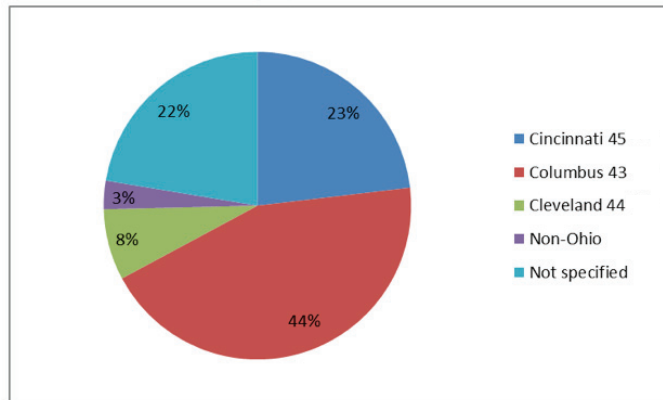
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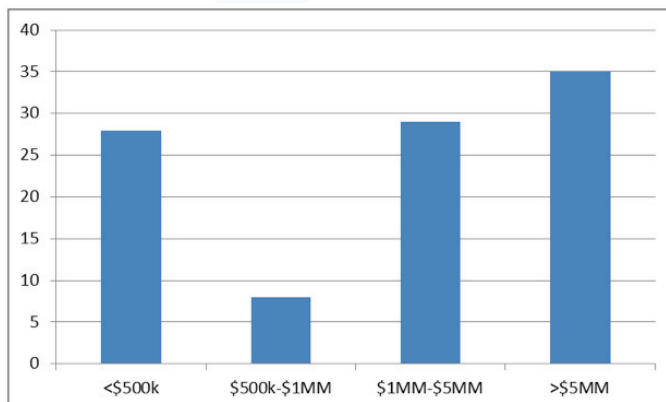
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Appendix: The Survey Respondents

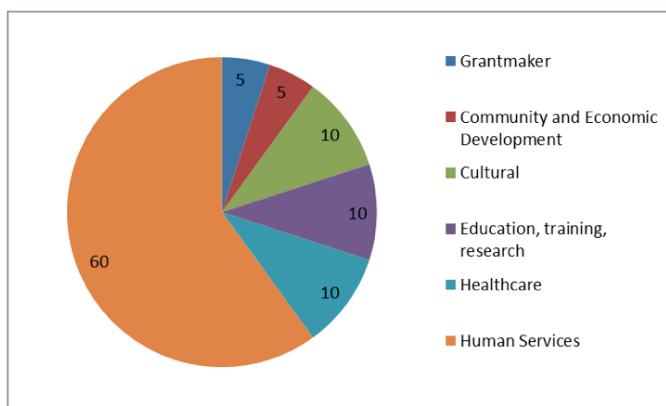
The 126 501(c)(3) survey respondents:



Largely in central and southwest Ohio



Large and small are well represented



Respondents are heavily human services nonprofits, with numerous healthcare, education/training, and cultural institutions